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C O N F I D E N T I A L SECTION 01 OF 02 YEREVAN 002158

SIPDIS

USNATO FOR TOM UNDERWOOD

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TAGS: ECON PREL ETRD RS AM

SUBJECT: RUSSIA CONTINUES TO PLAY A WINNING HAND

REF: A) YEREVAN 575 B) YEREVAN 637 C) YEREVAN 1725 D)

YEREVAN 2118 E) YEREVAN 1044 F) DUSHANBE 1814

Classified By: DCM A.F. Godfrey for reasons 1.4 (b,d).

SUMMARY

¶1. (SBU) Russian Prime Minister Mikhail Fradkov visited Yerevan December 2-3 to commemorate the end of the Year of Russia in Armenia announced by President Putin during his visit in March 2005 (ref A). While the Year of Russia in Armenia was mostly show, marked by a steady stream of high-level visits, economic relations between the two countries continue to develop as do concerns about Armenia's economic dependence on its "strategic partner" and particularly, Armenia's continuing dependence on Russian natural gas. End Summary.

RUSSIAN VIPS - FREQUENT FLIERS

¶2. (C) In March 2005, Russian President Vladimir Putin visited Armenia on a short trip that was billed by the Armenians as the most important official visit in recent history (ref A). During the visit, Putin and Kocharian announced the Year of Russia in Armenia. The last eight months have been marked by numerous high-level visits between the two countries, including visits to Armenia by Head of the Russian Presidential Administration Dmitry Medvedev (May), Minister of Internal Affairs Rashid Nurgaliyev (September), and Russian Transport Minister Igor Levitin (October). Russian Prime Minister Mikhail Fradkov traveled to Yerevan on December 2-3 to mark the end of the Year of Russia in Armenia. His visit coincided with a Russian-Armenian business forum attended by over 300 Russian businessmen, and a visit by the Speaker of Russia's Federal Assembly Sergey Mironov who opened a conference on future prospects for Armenian-Russian cooperation at the Armenian National Assembly on December 9. While the Armenian press seems to be swallowing the "special relationship" line, we note that other countries in the old near abroad are also getting lots of high-ranking attention from Moscow (ref F).

TRADE AND INVESTMENT BY THE NUMBERS

¶3. (SBU) According to data released by the Armenian National Statistical Service, total Russian investment in Armenia for the first nine months of 2005 was USD 36 million, an increase of 28 percent compared to the same period in 2004. Russian investments accounted for 16 percent of total foreign investment in Armenia during the first nine months of this year. The bulk of Russian investment, USD 29 million, was in the metal industry (largely for the refurbishment of the ARMENAL plant, see paragraph 4). According to Armenian Deputy Minister of Trade and Economic Development Tigran Davtian, the GOAM expects that total trade between Armenia and Russia will reach USD 300 million in 2005 and that total Russian investment in Armenia by the end of this year will reach USD 400 million. In addition to the investments listed above, the then-Russian Ambassador to Armenia, Anatoliy Dryukov, said in May 2005 that Russian capital makes up one third of the total authorized capital stock in Armenia's banking system (ref C). Remittances from Russia, though difficult to quantify precisely, play a crucial role in the Armenian economy (ref E).

RUSSIAN INVESTMENT UP...

¶4. (SBU) On November 23 the Russian Duma ratified a bi-lateral investment treaty between the two countries. The treaty comes on the heels of a number of significant commitments by Russian companies to invest in Armenia. On December 3, Russian Prime Minister Fradkov and Armenian President Kocharian presided over the long-awaited reopening of the Armenian aluminum foil mill (ARMENAL), a Yerevan subsidiary of the Russian giant RUSAL, partially owned by the

Russian aluminum magnate Oleg Deripasko. The fully modernized factory represents a USD 70 million Russian investment and will employ about 1000 local staff. The plant was purchased by RUSAL in 2003 and shut down in October 2004 for complete renovation and modernization. According to press reports, the ARMENAL plant will be able to produce 25 thousand tons of foil a year, approximately 2.5 percent of annual global production. In September, the GOAM sold the Demirchyan Sports Complex to the Russian company BAMO for USD 5.7 million. Under the contract, BAMO agreed to invest USD 9 million over the next three years to renovate the complex.

...WITH MORE TO COME

15. (C) Some Russian investments are clearly politically motivated duds. Armenia transferred five Soviet-era enterprises to the GoR as part of a debt-for-equity deal in 2002. Now the GoR seeks to unload one of these plants. According to the President of the Russian Union of Entrepreneurs and Manufacturers, Arkadiy Volskiy, who traveled with Fradkov to Armenia, the Russian Commission on State Property plans to announce a tender to privatize the "Mars" electronics and robotics plant on December 16.

16. (SBU) Following the December Russian-Armenian trade fair, the Pan-Russian Exhibition Center agreed to fund construction of a new, 1000-square-meter trade show complex in Yerevan. In response to the Russian commitment, the Yerevan Mayor's Office designated the site where construction is scheduled to start in 2006. Also, in connection with the trade fair, the Director of the Foreign Commercial Activity and Customs State Regulation at the Russian Ministry of Economic Development and Trade announced plans to open a Commercial Office in Yerevan in the near future.

SCIENTIFIC AND MILITARY COOPERATION

17. (SBU) The Armenian and Russian National Academies of Science signed a cooperation agreement on December 3 which, according to press reports quoting the Vice President of the Russian Academy of Sciences Nikolai Plate, included 67 joint scientific projects in the areas of chemistry, biology, mathematics, earth sciences and physics. The signing of such cooperation agreements is often widely covered in the press, but we have no way to judge their long-term substantive impact. Military cooperation between Russia and Armenia remains strong. A charter member of the Collective Security Treaty Organization (CSTO), Armenia not only gives Russia's base in Gyumri free rent, it also pays for the base's utilities. The GOAM recently signed a multifaceted military cooperation agreement with Russia allowing Armenia to purchase military hardware for a reduced rate and permitting Armenian cadets to attend Russian military academies free of charge (septel).

THE VERTICAL INTEGRATION OF DEPENDENCY IN THE ENERGY SECTOR

18. (C) Russia has long dominated the Armenian energy sector and its position was strengthened over the past eight months with the acquisition of a controlling stake in the Armenian electrical distribution network (ENA) (ref C). Gazprom's recent announcement that it intends to double the price of natural gas exported to Armenia, also highlights Armenia's continued energy dependence. Despite an apparent strengthening of ties with Iran on energy issues (ref D), Armenia remains heavily reliant on Russia. Gazprom owns the gas, the pipeline, most of the gas-fired power generation stations and, now, the electricity distribution system. Russia's MinAtom is also the sole source of fuel for Armenia's nuclear power plant.
EVANS